

Message Text

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PAGE 01 STATE 064235
ORIGIN TRSE-00

INFO OCT-01 NEA-10 ISO-00 EB-08 SS-15 SP-02 USIA-06
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SOE-02 CIAE-00 FRB-03 INR-10 NSAE-00 XMB-02
OPIC-03 LAB-04 SIL-01 /097 R

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APPROVED BY EB/IFD/ODF:AFWATSON
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TREAS/OASIA/IDN/RPELIKAN
TREAS/OS/ES/PBRIDGES
TREAS/OS/I/CFBERGSTEN

-----094750 140114Z /64

P 132356Z MAR 78
FM SECSTATE WASHDC
TO AMEMBASSY TEHRAN PRIORITY

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E.O. 11652: N/A

TAGS: EFIN

SUBJECT: MEETING OF SECRETARY BLUMENTHAL WITH IRANIAN
MINISTER OF ECONOMIC AFFAIRS AND FINANCE, MOHAMMED YEGANEH
ON 2-27-78

1. PRIOR TO SECRETARY'S ARRIVAL, UNDER SECRETARY SOLOMON
REVIEWED HOUSE VOTE ON WITTEVEEN FACILITY, EXPRESSING
SATISFACTION THAT VOTE HAD BEEN FAVORABLE AND CONFIDENCE
ON FINAL OUTCOME, NOTING THAT SENATE WAS FAVORABLY DISPOSED
TOWARD THE BILL. HE CAUTIONED IT MAY BE MAY OR JUNE BEFORE
FINAL ACTION.

2. GROUP THEN JOINED THE SECRETARY AND ASSISTANT SECRETARY
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BERGSTEN IN SECRETARY'S OFFICE. SECRETARY BLUMENTHAL ASKED
IF MINISTER'S STAY IN U.S. HAD BEEN SUCCESSFUL. MINISTER
YEGANEH REPLIED THAT HIS COLLEAGUES HAVE DONE A GOOD JOB
AND THERE SEEMS TO BE MANY EXCELLENT OPPORTUNITIES FOR
EXPANDING COOPERATION BETWEEN OUR COUNTRIES. HE THEN
PROCEEDED TO GIVE OUTLOOK FOR IRAN OVER NEXT TEN YEARS:
IMPORTS ARE EXPECTED TO GROW FROM PRESENT LEVEL OF 16

BILLION DOLS TO OVER 50 BILLION DOLS IN CURRENT DOLLARS. AFTER THIS PERIOD, HOWEVER, IRAN'S ABILITY TO EXPORT OIL WILL BEGIN TO DECLINE, LEAVING IRAN TWO CHOICES: PROMOTION OF EXPORTS OR HIGH DEGREE OF PROTECTIONISM. OBVIOUSLY, FORMER WAS MORE DESIRABLE. HE SAID THERE WERE BOTH PROBLEMS AND OPPORTUNITIES WITH THIS COURSE OF ACTION. HE NOTED THAT EXCLUSION OF IRAN FROM GSP HAS DETRIMENTAL EFFECT ON ITS ACCESS TO U.S. MARKET. IRAN WILL BE INVESTING ABOUT 60 BILLION DOLS OVER THIS PERIOD AND THERE WILL BE MANY OPPORTUNITIES FOR JOINT VENTURES BETWEEN IRAN AND U.S. FIRMS. HE STRESSED IT WAS NOT IRAN'S DESIRE TO FOSTER DEVELOPMENT WHICH IS COMPETITIVE WITH U.S., RATHER COMPLEMENTARY TO IT. HE POINTED TO ADMIRATION WHICH IRAN HAS FOR AMERICAN TECHNOLOGY AND HOPE THAT EFFICIENT TRANSFERS COULD BE MADE.

3. UNDER SECRETARY SOLOMON ASKED ABOUT INFLATION SITUATION IN IRAN. MINISTER INDICATED THAT CONSUMER PRICES HAD RISEN 17 PERCENT FROM MARCH 1976 TO MARCH 1977, BUT WAS HOPEFUL THAT RATE WOULD BE REDUCED TO 12-15 PERCENT THIS YEAR. WHOLESALE PRICES WERE INCREASING AT SOMEWHAT SLOWER RATE OF ABOUT 10 PERCENT. SECRETARY POINTED OUT THAT IF WHOLESALE PRICES HAD SLOWED DOWN, CONSUMER PRICES SHOULD FOLLOW. UNFORTUNATELY, ACCORDING TO THE MINISTER, RENTS WERE NOT REFLECTED IN WHOLESALE INDEX BUT WERE MAJOR FACTOR BEHIND RISE IN CONSUMER PRICES. HE WAS LIMITED OFFICIAL USE

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OPTIMISTIC THAT MEASURES TAKEN TO AFFECT LAND SPECULATION AND TO BUILD ADDITIONAL LOWER INCOME HOUSING WOULD HELP ALLEVIATE COST RISE. HE NOTED PROGRAM OF EXPANDING HOUSING CONSTRUCTION AND IMPROVING HOUSING FINANCE APPARATUS WAS IMPORTANT AREA FOR COOPERATION WITHIN JOINT COMMISSION. SECRETARY BLUMENTHAL SAID THAT PROBLEM OF INFLATION WAS COMMON ONE AND HAD NOT BEEN LICKED. HE NOTED THAT OPEC'S RECENT ACTION OF FREEZING PRICES FOR 1978 WILL BE VERY BENEFICIAL IN THIS RESPECT.

4. MINISTER THEN TURNED TO HIS CONCERNS FOR GLOBAL SITUATION. IRAN, HE SAID, HAD UNDERTAKEN TO KEEP OIL PRICES FROZEN, BUT AT GREAT COST TO ITSELF. WORLD INFLATION WAS PUSHING UP PRICE OF ITS IMPORTS, WHILE OIL REVENUES--WHICH REPRESENTED 65 PERCENT OF TOTAL EXPORTS-- WOULD NOT GROW DURING 1978. DECLINE OF THE DOLLAR AGAINST OTHER MAJOR CURRENCIES ALSO A MAJOR CAUSE FOR CONCERN. SECRETARY CITED MEASURES U.S. WAS TAKING TO DEAL WITH DOMESTIC ECONOMIC SITUATION: STRENGTHENING ANTI-INFLATION PROGRAM BY TAKING MIDDLE GROUND BETWEEN "JAWBONING" AND CONTROLS; GETTING EFFECTIVE ENERGY BILL PASSED; AND PROPOSING TAX PROGRAM TO EXPAND PRIVATE

INVESTMENT IN ORDER ALLEVIATE BOTTLENECKS AS ECONOMY APPROACHES CAPACITY. SECRETARY FELT SUCCESSFUL PROGRAM OF THIS NATURE WOULD HAVE POSITIVE IMPACT ON THE DOLLAR. THUS FAR U.S. HAS ATTEMPTED TO MODERATE MARKET DISORDERS ONLY. INVESTORS SHOULD BE TAKING LONGER TERM VIEW. MR. SOLOMON ADDED THAT SOME IMPROVEMENT IN TRADE BALANCE

CAN BE EXPECTED WHICH MARKET WILL BEGIN TO PERCEIVE. ALSO, MANY MULTINATIONAL CORPS HAVE TAKEN SHORT POSITIONS; REVERSAL OF WHICH SHOULD HELP TO TURN CURRENCY MARKET AROUND. SECRETARY POINTED TO OTHER FACTORS UNDERLYING REVERSAL IN U.S. TRADE BALANCE: DIFFERENTIAL GROWTH RATES BETWEEN U.S. AND ITS TRADING PARTNERS AND FLAT AGRICULTURAL EXPORTS. HE NOTED THAT READJUSTMENT OF EXCHANGE LIMITED OFFICIAL USE

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RATES WILL HAVE BENEFICIAL EFFECT ON U.S. EXPORTS--ALTHOUGH U.S. DID NOT ACT TO BRING THIS ABOUT.

5. MR. YEGANEH FELT SOME ADDITIONAL STEPS MIGHT NEED TO BE TAKEN TO OVERCOME EROSION OF CONFIDENCE THAT HAD TAKEN PLACE. HE NOTED U.S. HAD TRIED TO GET GERMANY AND JAPAN TO REFLATE IN ORDER TO INCREASE U.S. EXPORTS. HE SUGGESTED THAT SHIFT OF OIL COMPANY PURCHASES TO OPEC COUNTRIES WITH GREATER ABSORPTIVE CAPACITY, SUCH AS IRAN, INDONESIA AND ALGERIA, COULD ALSO HELP ACCOMPLISH THIS GOAL. HE POINTED TO FACT THAT IRAN CURRENTLY EXPORTING 20-30 PERCENT LESS THAN IT WOULD LIKE TO. SECRETARY ASKED IF THE MINISTER HAD DISCUSSED THIS IDEA WITH SAUDIS. MINISTER REPLIED THAT MEMBERS OF OPEC HAD NOT BEEN VERY SUCCESSFUL IN DEALING WITH QUESTION OF PRODUCTION PROGRAMMING, BUT HE WAS AWARE OF CONSERVATIONIST FORCES WITHIN SAUDI GOVERNMENT AND THAT THEY WOULD PREFER TO PRODUCE LESS THAN THEY WERE CURRENTLY PRODUCING.

6. MR. BERGSTEN ASKED IF IRAN WILL RUN A CURRENT ACCOUNT SURPLUS THIS YEAR. MINISTER YEGANEH ANSWERED THAT IRAN'S CURRENT ACCOUNT SURPLUS WOULD DISAPPEAR THIS YEAR AS IMPORT GROWTH RESUMED FOLLOWING PORT CONGESTION OF 1976-77. HE WENT ON TO EXPLAIN THAT IRAN WILL NO LONGER DEVELOP 5-YEAR PLANS, BUT WILL CONSTRUCT 5, 10 AND 25 YEAR "OUTLOOKS" AND MAKE DETAILED PLAN FOR 1 YEAR ONLY.

7. MINISTER SAID IRAN WOULD BE TENDERING CONTRACTS FOR NUMBER OF LARGE INFRASTRUCTURE PROJECTS AND NOTED IN PARTICULAR TELECOMMUNICATIONS PROJECT. HE WISHED TO EXPRESS SOME CONCERN TO THE SECRETARY THAT NUMBER OF LARGE U.S. AND EUROPEAN FIRMS WHICH ARE POTENTIAL BIDDERS ON THIS PROJECT MAY HAVE MET IN LONDON RECENTLY WITH AIM LIMITED OFFICIAL USE

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OF DIVIDING UP MIDDLE EAST MARKET IN ORDER TO ELIMINATE COMPETITION AMONG THEMSELVES. SECRETARY EXPRESSED SURPRISE AND DISBELIEF AT THIS SUGGESTION. HE THOUGHT, AND UNDER SECRETARY SOLOMON AGREED, THAT THIS WOULD BE SUCH A GROSS VIOLATION OF U.S. ANTI-TRUST LAWS AND SO EASILY DETECTABLE, NO U.S. FIRM WOULD CONSIDER SUCH ACTION. NEVERTHELESS, HE WOULD PASS THIS SUSPICION ON TO APPROPRIATE PERSONS.

8. MINISTER YEGANEH RETURNED TO SUBJECT OF OIL PRICES. HE FELT THAT PRICE OF OIL NEEDED TO BE ALIGNED WITH PRICES OF OTHER ALTERNATIVE ENERGY SOURCES, OTHERWISE NO ENERGY PROGRAM, INCLUDING THAT OF U.S., WOULD BE SUCCESSFUL. HE FELT THAT PRICE OF OIL NEEDED TO RISE IN ORDER TO KEEP DEMAND AND SUPPLY IN BALANCE AND TO AVOID REPEAT OF 1973 EXPERIENCE. MR. SOLOMON RESPONDED THAT, IN ABSTRACT, GRADUAL PRICE RISES CERTAINLY PREFERABLE TO SHARP INCREASES, BUT FROM PRACTICAL STANDPOINT, IRAN AND OTHER OPEC MEMBERS HAD TO CONSIDER NEEDS OF GLOBAL ECONOMY. HE POINTED TO FACT THAT EVEN THOUGH EUROPE WOULD GROW 3.5 PERCENT COMPARED TO LAST YEAR'S 2.5 PERCENT, UNEMPLOYMENT WOULD REMAIN STEADY.

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10. IN CONCLUSION, SECRETARY EXPRESSED HOPE THAT JOINT LIMITED OFFICIAL USE

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COMMISSION WOULD MAKE SUBSTANTIAL PROGRESS THIS YEAR AND THANKED MINISTER YEGANEH AND THE OTHERS FOR THE MEETING. VANCE

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INFO OCT-01 EUR-12 ISO-00 /023 R

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DRAFTED BY: NEA/IRN:M JOHNSON

APPROVED BY: NEA/IRN:MLGREENE

EUR/CE:ELAUDERDALE (SUBS)

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R 050320Z APR 78

FM SECSTATE WASHDC

INFO AMEMBASSY BONN 0000

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FOLLOWING REPEAT STATE 064235 SENT ACTION TEHRAN 13 MAR 78

QUOTE LIMITED OFFICIAL USE STATE 064235

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ON 2-27-78
TAGS: EFIN, US, IR, (BLUMENTHAL, W MICHAEL), (YEGANEH, MOHAMMED)
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